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NOTED BY DGT

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OCI No. 0502/63

5 March 1963

**MEMORANDUM: NEGOTIATIONS BETWEEN INDONESIAN GOVERNMENT
AND WESTERN OIL COMPANIES**

1. In negotiations with the three major oil companies in Indonesia--Caltex, Stanvac, and Shell--Djakarta has recently raised its demands to a point which, if held to, would oblige the companies to cease operations. It is difficult to judge whether this is just another stumbling block in the long, uneven history of the oil talks or whether Djakarta has decided on a course that will lead to nationalization of the companies.

2. Negotiations have been underway since late 1960. An Indonesian government regulation of October of that year in effect cancelled the concession agreements under which the companies had operated and required that future operations be on a contract basis.

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4. A recent statement by Chaerul Saleh, the Indonesian Minister of Basic Industry and Mining, may indicate that the government wants to take over domestic marketing facilities at an early date and that its new terms are aimed at squeezing this function away from the companies.

5. Should Indonesia force one or all of the companies to leave, it would probably try--at least at the outset--to recruit assistance from both the West and the bloc to run the oil industry. It would also depend on Indonesians trained by the three companies. It seems likely, however, that the proportion of assistance ultimately would be weighted toward the bloc.

6. A representative of Union Oil, an American firm now seeking a contract in Indonesia, strongly implied to the American ambassador in mid-February that his was one of several American firms being considered by Djakarta for new exploration if negotiations with Stanvac should fail. He gave no indication, however, that his company might be asked to take over any of Stanvac's operations.

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7. Indonesia has sent sixty students to the Soviet Union for training in the oil industry and forty more reportedly will leave this spring. Their stay in the USSR is expected to be five years. Other students are being sent to Rumania, but no number has been reported.

8. The implementation of a 1961 Rumanian credit of \$35 million for the construction of a refinery and for oil development in Java has been delayed by Rumania's inability to provide all the necessary equipment. Chaerul Saleh recently announced that the Soviet Union is ready to supply the needed equipment.

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